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GRAY DRUG STORES, INC.

ANNUAL REPORT TO SHAREHOLDERS . . .

FOR THE YEAR ENDED JUNE 30, 1952

GRAY DRUG STORES, INC.

MAIN OFFICE AND WAREHOUSE—2400 SUPERIOR AVENUE
CLEVELAND, OHIO

LABORATORY—1707 CRAWFORD ROAD
CLEVELAND, OHIO

BOARD OF DIRECTORS

CARLYLE W. EVANS.....Executive Vice-President, Gray Drug Stores, Inc.
HENRY H. GRAY.....Vice-President, Gray Drug Stores, Inc.
CHARLES B. MERRILL.....President, Merrill, Turben & Co.
GEORGE F. PRYOR.....Vice-President, The Cleveland Trust Company
JOHN W. REAVIS.....Partner, Jones, Day, Cockley and Reavis
ADOLPH WEINBERGER.....President, Gray Drug Stores, Inc.

OFFICERS

ADOLPH WEINBERGER.....President
CARLYLE W. EVANS.....Executive Vice-President
HENRY H. GRAY.....Vice-President
MILTON M. NEUBAUER.....Vice-President
LLOYD C. DOUGLASS.....Treasurer
LOUIS BERWITT.....Secretary
JOSEPH VALINS.....Assistant Secretary

TRANSFER AGENT AND REGISTRAR

THE CLEVELAND TRUST COMPANY.....Cleveland, Ohio

AUDITORS

ERNST & ERNST.....Cleveland, Ohio

COUNSEL

JONES, DAY, COCKLEY and REAVIS.....Cleveland, Ohio

REPORT TO SHAREHOLDERS

Cleveland, Ohio,
September 10, 1952.

To our Shareholders:

The results of your Company's operations for the fiscal year ended June 30, 1952, are presented in this report.

Sales were the highest in the Company's history, $19,268,081 as compared to $16,833,818 last year, or an increase of 14.46%. Net income for the year after deducting all charges including taxes was $250,767 or $1.78 a share of Common Stock as compared with $2.32 a share for the preceding year and $2.03 for the year before that.

In my report to you a year ago I discussed our program to improve the chain and strengthen our competitive position. I am pleased to report that we have made satisfactory progress in this direction. During the year, eight stores were sold, five of which were located in Pennsylvania and New York state. Two smaller stores were closed and sixteen new stores opened, so that at the end of the fiscal year we were operating 80 stores. In accord with our policy to concentrate operations closer to our administrative headquarters we have disposed of all stores in the state of New York except one and all but four stores in Pennsylvania. It is our present intention to retain the four Pennsylvania stores.

All except one of the sixteen new stores have been opened in either regional or neighborhood shopping centers. These shopping centers are strategically located in their communities, the regional center being considerably larger in area and having more storerooms than the neighborhood center. The neighborhood centers generally have from twelve to twenty-four units including various specialty stores, two chain food super markets, one national variety store, and the drug store. The regional centers include in addition, a department store and service stores, and provide the shopper with practically every type of merchandise and service. Adequate parking is provided and, of course, this is essential to the success of each project.

Most of our new stores, including three self-service stores, have a ground floor area of from six thousand to nine thousand square feet. This is approximately three times the size of the average store leased by our chain as recently as five years ago.

Self-service stores are successfully operated by a number of chains on the west coast and certain chains in the east and middle west are now installing them on an experimental basis. To date, it is impossible for us to judge the success of our self-service stores as compared with conventional stores of the same floor area.

The installation of new stores during the past fiscal year was, of course, quite a burden to our company. Capital expenditure for fixtures and leasehold improvements amounted to $1,027,930. Operating expenses entailed by the program are not determinable but were substantial, and certainly adversely affected our profits for the year. In addition, the program entailed considerable additional work for our key personnel and prevented us from being able to devote maximum efforts to the remaining units.

For the present fiscal year to end June 30, 1953, we plan a moderate program of three or four new stores to replace small unprofitable units presently in operation. An additional five or six stores are scheduled for remodeling and modernizing.

We are proud to present to you in this report photographs of some of the new stores. We invite you to visit them, as we think they compare favorably with the best drug stores anywhere.

The splendid cooperation of our employees, stockholders and directors, and the continued loyalty of our customers has helped immeasurably to make this a satisfactory year. To them I extend my sincere appreciation.

Respectfully submitted,

Adolph Weinberger

President

BETTER STORES FOR BIGGER SALES

Exterior—3834 East Broad St.—Columbus, Ohio

The many new Gray Drug Stores opened during the past year are not cut to one pattern. Instead they are "custom-tailored"—each to best meet the requirements and sales potential of its own shopping community. The "drive-in" shopping center with spacious parking is the most potent development in modern retailing, and most new Gray units are planned to fit these thriving new locations.

526 Canton Road
Akron, Ohio

645 Harrisburg Pike
Columbus, Ohio

3313 Mahoning Avenue
Youngstown, Ohio

466 Youngstown-
Poland Rd.
Struthers, Ohio

Mass displays and self-serve counters encourage customers to buy more. Gray's beautiful new interiors, designed for fast, easy shopping, will help build volume.

Interior—3834 East Broad St.—Columbus, Ohio

13721 Lorain Ave.
Cleveland, Ohio

1958 West 25th St.
Cleveland, Ohio

18235 Euclid Ave.
Cleveland, Ohio

22824 Lake Shore Blvd.
Cleveland, Ohio

2264 Broad Street
Erie, Pennsylvania

72-80 East Stroop Road
Dayton, Ohio

4221 North Main St.
Dayton, Ohio

2163 Miracle Lane
Dayton, Ohio

GRAY'S . . . PRESCRIPTION DEPARTMENTS

PROGRESS, PRESTIGE AND SALES

Alert and abreast of the times, Gray's prescription departments offer the highest quality service. The growth of both professional and public confidence is clearly reflected in the ever-increasing number of prescriptions filled by our pharmacists. Stocking the latest and finest drugs available, equipped with custom-designed fixtures, these spotless, sparkling departments are a reflection of modern pharmaceutical progress.

ACCOUNTANTS' REPORT

Board of Directors,
Gray Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the consolidated balance sheet of Gray Drug Stores, Inc., and subsidiaries as of June 30, 1952, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss and surplus present fairly the consolidated financial position of Gray Drug Stores, Inc., and subsidiaries at June 30, 1952, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
August 25, 1952

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS			
Cash			$1,486,690
Accounts receivable, less allowance of $10,000			121,090
State tax stamps			89,122
Inventories—priced generally on the basis of the lower of cost (latest) or replacement market:			
At stores		$2,497,823	
At warehouse		1,102,076	
At laboratory		20,128	
		$3,620,027	
In transit		105,748	3,725,775
	TOTAL CURRENT ASSETS		$5,422,677
OTHER ASSETS			
Cash surrender value of life insurance		$ 76,356	
Notes receivable from sale of stores		47,068	
Receivables for capital stock subscribed for by officers and employee		39,425	
Miscellaneous receivables, deposits, etc.		13,945	176,794
FIXED ASSETS—at cost, less allowances for depreciation and amortization			
Land		$ 5,218	
Building	$ 51,393		
Furniture and fixtures	2,085,872		
Leasehold improvements	1,272,961		
	$3,410,226		
Less allowances for depreciation and amortization	1,076,503	2,333,723	2,338,941
PATENTS AND TRADE-MARKS			1
DEFERRED CHARGES			
Taxes		$ 47,174	
Prepaid insurance		26,373	
Other		17,768	91,315
			$8,029,728

STORES, INC., AND SUBSIDIARIES, JUNE 30, 1952

LIABILITIES, CAPITAL STOCK, AND SURPLUS

CURRENT LIABILITIES			
Notes payable:			
To bank		$ 750,000	
Portion of long-term debt due within one year		100,000	$ 850,000
Accounts payable:			
Trade accounts		$ 983,775	
Salaries, wages, and commissions		230,647	
Pay roll taxes and taxes withheld from employees		143,444	1,357,866
Accrued:			
Taxes (other than federal taxes on income)		$ 104,551	
Rent and interest		66,354	170,905
Federal taxes on income—estimated			446,028
TOTAL CURRENT LIABILITIES			$2,824,799
LONG-TERM DEBT			
Notes payable:			
To insurance company—Note A		$1,191,060	
To bank:			
Payable in semiannual installments of $50,000 each	$ 200,000		
Less portion classified as current	100,000	100,000	1,291,060
CAPITAL STOCK AND SURPLUS			
Capital stock (par value $1.00 a share):			
Authorized 150,000 shares (3,900 shares subject to stock options granted to certain officers and key employees on October 18, 1950, at $10.75 per share)			
Outstanding—140,950 shares	$ 140,950		
Subscribed — 2,075 shares	2,075	$ 143,025	
Surplus—Note A:			
Capital surplus		1,875,772	
Earned surplus		1,895,072	3,913,869
			$8,029,728

CONTINGENT LIABILITY

On notes receivable (from sale of property) sold to bank—$62,713

See notes to financial statements.

STATEMENT of CONSOLIDATED PROFIT and LOSS

GRAY DRUG STORES, INC., AND SUBSIDIARIES
Year ended June 30, 1952

Net sales		$19,268,081
Cost of goods sold		12,294,464
		$ 6,973,617
Selling, general, and administrative expenses		6,469,114
		$ 504,503
Other income:		
Gain on disposal of fixed assets	$ 58,498	
Revenue from telephones, etc.	24,067	
Miscellaneous	20,596	103,161
		$ 607,664
Interest expense		67,897
PROFIT BEFORE FEDERAL TAXES ON INCOME		$ 539,767
Federal taxes on income—estimated:		
Normal tax and surtax	$ 284,600	
Excess profits tax	4,400	289,000
NET PROFIT		$ 250,767

See notes to financial statements.

STATEMENT of CONSOLIDATED SURPLUS

GRAY DRUG STORES, INC., AND SUBSIDIARIES
Year ended June 30, 1952

CAPITAL SURPLUS		
Balance at July 1, 1951		$ 256,647
Amount transferred from capital stock account in connection with change of common stock without par value into common stock having a par value of $1.00 a share		1,614,250
Excess of option price over par value of 500 shares of capital stock sold during the year		4,875
BALANCE AT JUNE 30, 1952		$1,875,772
EARNED SURPLUS		
Balance at July 1, 1951		$1,784,930
Net profit for the year		250,767
		$2,035,697
Cash dividends declared:		
$.25 a share paid October 1, 1951	$ 35,038	
$.25 a share paid January 2, 1952	35,113	
$.25 a share paid April 1, 1952	35,237	
$.25 a share paid July 1, 1952—Note B	35,237	140,625
BALANCE AT JUNE 30, 1952		$1,895,072

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GRAY DRUG STORES, INC., AND SUBSIDIARIES
Year ended June 30, 1952

NOTE A

Under an agreement entered into on May 21, 1951, the Company issued its promissory note for $1,200,000 due on May 1, 1966, with interest at 3¾% per annum, payable in semiannual installments of $50,000 each beginning either November 1, 1954, or the May 1st or November 1st next succeeding the payment in full of the long-term note payable to bank. In addition, the Company is required to make additional payments in each year to the extent of 20% of the excess of consolidated net profit for the preceding year over $280,000 (no payment is due on November 1, 1952, under such requirement); however, such additional payment in one year shall not exceed $100,000. The agreement includes, among other things, certain provisions relating to the maintenance of consolidated net current assets and certain restrictions on the payment of dividends. Accordingly, consolidated surplus available for dividends at June 30, 1952, amounted to $322,954.

NOTE B

On June 30, 1952, the Company deposited funds with the dividend disbursing agent for payment of the dividend payable July 1, 1952.

NOTE C

Allowances for depreciation and amortization aggregated $322,038 for the year.

NOTE D

Under the terms of the Pension Retirement Plan now in effect, the actuarially estimated annual cost including amortization of cost of past service benefits to retirement age of participants amounts to approximately $81,000.

GRAY DRUG STORES, INC.

OPERATING EIGHTY STORES
IN THE FOLLOWING CITIES:

OHIO

Akron
Alliance
Barberton
Bexley
Boardman
Canton
Cleveland
Cleveland Heights
Columbus
Dayton
East Cleveland
Euclid
Fremont
Garfield Heights
Lakewood
Mansfield
Massillon
Painesville
Rocky River
Sandusky
Steubenville
Struthers
University Heights
Warren
Wooster
Youngstown

Bradford, Pennsylvania • Erie, Pennsylvania • Elmira, New York